CABERNET LIMITED

ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

This version of the financial statements contains minor redactions which have been made for reasons of commercial and contractual confidentiality.

CABERNET LIMITED

Financial Statements
For the year ended 31 December 2018

Contents	**Page**

Company Information

Directors of the Company

A Haining
R Darby
C Simpson
M Coupar

Registered office

La Planque Lane
Forest
Guernsey
GY8 0DT

Independent Auditor

KPMG Channel Islands Limited
Glategny Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 1WR

Directors' Report

For the year ended 31 December 2018

The Directors present their annual report and audited consolidated financial statements of Cabernet Limited (the "Company") together with Aurigny Air Services Limited and Anglo Normandy Aero Engineering Limited (the "Subsidiaries", together the "Group") for the year ended 31 December 2018. These comprise the Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and notes to the financial statements, which have been prepared in accordance with the Companies (Guernsey) Law, 2008.

Principal activities

The Company is the 100% holding company for Aurigny Air Services Limited and Anglo Normandy Aero Engineering Limited. The principal activities of these subsidiaries are those of passenger and freight air transport services and aircraft engineering and repairing respectively.

Proposed dividend

The Directors do not recommend the payment of a dividend (2017: £nil).

Results

The results for the year are shown in the Consolidated Statement of Comprehensive Income on page 7.

Directors

The Directors who held office during the year and up to the date of this report are stated on page 1.

Appointment of Directors

The articles of association do not provide for the rotation of Directors, but in the interests of good corporate governance the Board consider that Directors should retire by rotation each 3 years.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

Directors' Report (continued)

For the year ended 31 December 2018

Statement of Directors' responsibilities (continued)

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going concern

The Directors have considered and confirmed the suitability of the going concern basis of accounting. The basis of this consideration is discussed in note 3(i) on page 12.

The Directors have prepared the financial statements on a going concern basis.

Independent Auditor

KPMG Channel Islands Limited has indicated its willingness to continue in office and a resolution for their re-appointment as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

C SIMPSON	A HAINING
Director	Director

Date 3rd April 2019

Independent Auditor's Report to the Member of Cabernet Limited

Our opinion is unmodified

We have audited the financial statements of Cabernet Limited (the "Company") and its subsidiaries (together the "Group"), which comprise the Consolidated Balance Sheet as at 31 December 2018, the Consolidated Statements of Comprehensive Income and Changes in Equity and the Consolidated Cash Flow Statement for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2018, and of the Group's financial performance and the Group's cash flows for the year then ended;
- are prepared in accordance with United Kingdom accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- comply with the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and the Group in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

We have nothing to report on the other information in the Directors' Report

The Directors are responsible for the Directors' Report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon or any form of assurance conclusion thereon.

Our responsibility is to read the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the information presented in the Directors' Report.

We have nothing to report on other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Independent Auditor's Report to the Member of Cabernet Limited (continued)

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 2 and 3, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group or Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Company's member as a body

This report is made solely to the Company's member, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG CHANNEL ISLANDS LIMITED

KPMG Channel Islands Limited
Chartered Accountants, Guernsey

Date 3rd April 2019

Consolidated Balance Sheet
As at 31 December 2018

	Notes	2018 £	2018 £	2017 £	2017 £
Fixed Assets					
Tangible fixed assets	*8*		48,708,768		40,824,596
Current Assets					
Debtors (including £572,695 (2017: £674,698) due after more than one year)	*9*	2,999,769		3,049,445	
Derivative financial instruments	*15*	346,088		397,570	
Cash at bank and in hand		890,832		1,770,913	
Stock		1,331,292		1,330,709	
		5,567,981		6,548,637	
Creditors: amounts falling due within one year					
Bank overdraft	*12*	(382,902)		(66,469)	
Aircraft loans	*13*	(8,384,997)		(1,289,694)	
Creditors	*13*	(19,899,995)		(16,989,902)	
Derivative financial instruments	*15*	(1,353,822)		(1,118,548)	
		(30,021,716)		(19,464,613)	
Net Current Liabilities			(24,453,735)		(12,915,976)
Creditors: amounts falling due after one year					
Aircraft loans	*13, 14*		(7,663,191)		(8,346,320)
Creditors	*13, 14*		(27,175,742)		(25,716,904)
			(34,838,933)		(34,063,224)
Net Liabilities			(10,583,900)		(6,154,604)
Capital and Reserves					
Share Capital	*17*		25,212,002		25,212,002
Retained Earnings			(35,795,902)		(31,366,606)
Total Equity			(10,583,900)		(6,154,604)

The notes on pages 10 to 28 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 3rd April 2019

C SIMPSON

Director

A HAINING

Director

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 £	2017 £
Passenger revenue		41,860,342	41,593,426
Other revenue		3,680,546	3,086,078
Total Revenue	*4*	45,540,888	44,679,504
Fuel		(3,900,364)	(4,242,999)
Station and ground expenses		(4,198,835)	(3,377,798)
Flight crew salaries and expenses		(6,135,934)	(6,706,434)
Landing fees, aerodrome charges and navigation		(14,348,782)	(15,887,566)
Aircraft maintenance		(7,247,142)	(7,313,841)
Ticketing, sales and promotions		(1,618,530)	(1,563,236)
Aircraft insurance		(297,450)	(251,505)
Aircraft leases		(1,738,252)	(1,607,718)
Other costs	*5*	(3,779,721)	(2,904,281)
EBITDA*		2,275,878	824,126
Depreciation	*8*	(4,146,473)	(4,224,189)
Operating Loss		(1,870,595)	(3,400,063)
Interest payable and similar charges		(454,816)	(66,838)
Interest payable on aircraft loans		(2,032,192)	(2,060,848)
Net finance charges		(2,487,008)	(2,127,686)
Movement in loss on derivative financial instruments	*15*	(430,625)	1,534,913
Movement on provision for onerous lease	*13*	358,932	(1,204,738)
Loss for the year		(4,429,296)	(5,197,574)

All material activities derive from continuing operations.

The Company has no recognised gains or losses other than those included in the above statement. No separate statement of other comprehensive income has been presented.

The notes on pages 10 to 28 form an integral part of these financial statements.

*EBITDA is a company specific measure which is earnings before finance expenses (interest), taxes, depreciation and amortisation.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

2017	**Share Capital**	**Retained Earnings**	**Total Equity**
	£	£	£
Balance at 1 January 2017	25,212,002	(26,169,032)	(957,030)
Loss for the year	-	(5,197,574)	(5,197,574)
Balance at 31 December 2017	25,212,002	(31,366,606)	(6,154,604)

2018	**Share Capital**	**Retained Earnings**	**Total Equity**
	£	£	£
Balance at 1 January 2018	25,212,002	(31,366,606)	(6,154,604)
Loss for the year	-	(4,429,296)	(4,429,296)
Balance at 31 December 2018	25,212,002	(35,795,902)	(10,583,900)

The notes on pages 10 to 28 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Notes	2018 £	2017 £
Operating activities			
Loss for the year		(4,429,296)	(5,197,574)
Adjustments for:			
Depreciation	*8*	4,146,473	4,224,189
Loan interest		2,032,192	2,060,848
Increase in Stock		(584)	(129,012)
Movement in unrealised loss/(gain) on derivative financial	*15*	286,756	(1,176,725)
Decrease/(Increase) in debtors	*9*	49,676	(42,678)
Decrease in creditors	*13*	415,093	869,273
Net cash inflow from operating activities		2,500,310	608,321
Investing activities			
Purchase of tangible assets	*8*	(12,075,784)	(2,055,945)
Net cash outflow from investing activities		(12,075,784)	(2,055,945)
Financing activities			
Repayment of bank loans		(1,251,017)	(1,183,031)
New loans raised		7,663,191	-
Amount received from parent company shareholder		3,161,917	6,356,922
Loan interest paid		(1,195,131)	(1,638,519)
Net cash inflow from financing activities		8,378,960	3,535,372
Net (decrease)/increase in cash and cash equivalents		(1,196,514)	2,087,748
Cash and cash equivalents as at 1 January		1,704,444	(383,304)
Cash and cash equivalents as at 31 December		507,930	1,704,444
Cash at bank and in hand		890,832	1,770,913
Bank overdraft		(382,902)	(66,469)
		507,930	1,704,444

The notes on pages 10 to 28 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

1. Reporting entity

Cabernet Limited ("the Company") was established on 14th February 2003 and is registered in Guernsey. The Company is governed by the provisions of the Companies (Guernsey) Law, 2008.

2. Basis of consolidation

The group financial statements consolidate the financial statements of the Company and its Subsidiaries for the year ended 31 December 2018. All intra-group sales have been excluded from the consolidated financial statements. All companies within the Group compile their financial statements to the same date.

3. Basis of accounting

These financial statements give a true and fair view, comply with the Companies (Guernsey) Law, 2008 and were prepared in accordance with United Kingdom accounting standards including FRS 102 *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland* ("FRS 102"). The presentation currency of these financial statements is sterling.

The Group has consistently applied the following accounting policies to all periods presented in these financial statements.

a) *Revenue recognition*

The Group's income is derived solely from its subsidiaries and is recognised as follows:

(i) *Aurigny Air Services Limited (hereafter "Aurigny")*

Passenger ticket sales are recorded as current liabilities in the "bookings paid in advance" account until recognised as revenue when the transportation service is provided. All other revenue types are accrued in the period to which they relate.

(ii) *Anglo Normandy Aero Engineering Limited (hereafter "Anglo Normandy")*

Turnover is expressed as a combination of completed work, which has been invoiced and part completed work, which is accounted for as work in progress. Any turnover billed in advance of work being performed is carried forward and not recognised as turnover in the period.

b) *Provisions*

<u>Frequent Flyer Programme</u>

Aurigny operates a frequent flyer programme, a loyalty programme to reward customers with free flights subject to the payment of taxes and surcharges. A provision for unused points is made in accordance with FRS 102.21. This provision is based on the anticipated fair value of rewards earned, which is calculated by multiplying the total number of points outstanding at the year-end by the average value of points redeemed.

<u>EU261 compensation claims</u>

Provision is made for passenger compensation claims when Aurigny has an obligation to recompense customers under regulation EU261 where technical issues have caused flights departing France or the United Kingdom to be delayed by more than 3 hours. Provisions are measured based on known eligible flight delays and historic claim rates and are expected to unwind across the claim window, which is 6 years.

<u>Onerous lease</u>

In accordance with FRS102.21 provision is made against onerous lease contracts where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. When measuring a provision, the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it, less the reasonably expected income/benefits during the same period. An appropriate discount rate is applied when making the provision.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. Basis of accounting (continued)

c) *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation. The gain or loss on disposal of tangible fixed assets after deducting any costs associated with selling, disposing of or retiring the relevant asset is recognised in the Consolidated Statement of Comprehensive Income.

Estimated residual values are reviewed annually at each period end, with reference to current market conditions. Where estimated residual values are found to have changed significantly, this is accounted for prospectively as a change in estimate and depreciation charges over the remaining useful life of the asset are adjusted to take account of the revised estimate of residual value.

d) *Depreciation – Excluding aircraft*

Depreciation is calculated to write down the cost of tangible fixed assets to their estimated residual values over the period of their estimated useful economic lives, at the following annual rates:

Asset	**Depreciation per annum**
Leasehold Property	5% straight line
Ground equipment	20% reducing balance
Plant, tools, equipment, office furniture and fittings	20% reducing balance
Motor vehicles	25% straight line / 25% reducing balance
Airport buildings and fittings	20% straight line
Radio equipment	10% straight line

e) *Aircraft depreciation*

In accordance with the requirements of FRS 102.17.6, the cost of each aircraft is split into its main components and each component is depreciated over the remaining useful economic life of that component. The remaining useful economic life of each component is expressed either as flying hours or aircraft landings and the annual depreciation charge is calculated by reference to the number of hours flown or landings made by each aircraft during the accounting period. The cost of major maintenance inputs is also capitalised and depreciated over the length of time until the input needs repeating. The depreciation of the core hull value is based on future valuations obtained when the aircraft were acquired. These are reviewed regularly. During the year Aurigny entered into an agreement giving it the right to sell 2 ATR72-500 aircraft to a third party. The rates of depreciation applied to these aircraft have been updated to reflect the projected sales proceeds rather than the future valuations used in prior years.

f) *Stock*

Stock is stated at the lower of cost and estimated net realisable value after making due provision for damaged, obsolete and slow-moving items.

The core value of rotable parts is written down in a straight line over ten years.

g) *Foreign currency translation*

Monetary assets and liabilities denominated in currencies other than sterling have been translated into sterling at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated at the historic rate ruling on the date of the transaction. Transactions during the year have been translated at the rates of exchange ruling at the date of the transaction. Foreign currency profits and losses are recognised in the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. Basis of accounting (continued)

h) *Pension costs*

The Subsidiaries have historically operated a joint defined contribution pension scheme for all of their employees. During the year, in order to comply with changes to United Kingdom legislation, Aurigny has established a Group Personal Pension Plan arrangement and enrolled its employees who are resident in that jurisdiction. Aurigny pays contributions into the personal pension plans of its United Kingdom resident employees unless they have opted out.

i) *Going concern*

In assessing the suitability of the going concern basis of accounting, the Directors have considered detailed budgeted profitability and cash flows of the Group for the 12 months following the date on which these financial statements were approved by the Board of Directors.

The Group has historically operated with a combination of third party and States of Guernsey debt and asset financing. Following a decision taken by the States of Deliberation in November 2015, the Group's balance sheet was recapitalised through an increase in the share capital of £25,212,000.

Subsequent to this recapitalisation, the Group has continued to sustain losses and therefore the Directors have taken the following action: (i) secured a working capital overdraft facility with the States of Guernsey; and (ii) sought written confirmation from the States of Guernsey that it will continue to be make available financial support for the foreseeable future to meet the Group's debts and obligations as they fall due. Having received this confirmation in writing, the Directors have prepared the financial statements on a going concern basis.

In addition, as disclosed in Note 12, Aurigny has an overdraft facility of £1m which is supported by a guarantee from the States of Guernsey. As disclosed in Note 13, the States of Guernsey acts as guarantor on loan facilities taken out by Aurigny for the purchase of aircraft and is lender under several aircraft financing arrangements.

j) *Financial instruments*

<u>Trade and other debtors/creditors</u>

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

<u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

<u>Derivative financial instruments</u>

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices and it uses forward foreign exchange and commodity contracts and interest rate swaps to hedge these exposures. The Group does not use derivative financial instruments for trading purposes.

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

3. Basis of accounting (continued)

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The following describes the items subject to this re-measurement and the methods used for determining fair value:

Interest swap deals -	The fair value has been estimated by calculating the difference between the interest payments due under the swap deal, and those that would be due using the year end interest rate charged by Aurigny's bankers.
Fuel forward contracts-	The fair value has been estimated by calculating the difference between the total cost of the contracts (number of tonnes of fuel contracted to purchase multiplied by the contracted rate) and the cost of the equivalent amount of fuel had it been purchased at the forward rate available at the year end.
Foreign exchange forward contracts-	The fair value has been estimated by calculating the difference between the total cost of the contracts (quantity of foreign currency contracted to purchase multiplied by the contracted rate) and the cost of the equivalent amount of foreign currency had it been purchased at the forward rate charged by Aurigny's bankers at the year end.

Loans at amortised cost
Loans at amortised cost are initially measured at fair value, net of transaction costs, then subsequently measured at amortised cost using the effective interest rate method.

States of Guernsey loans to support asset purchases at fixed interest rates (see note 13) fall into this category. Acquiring these loans on the open market would have generated a higher interest rate of approx. 6.4% for the 2015 loans, then 8.4% for the subsequent loan taken out in 2016 at the date the loans were taken out (Source: local bank). Accordingly, a fair value of the loans has been calculated using this rate (discounted for future cash flows), and the interest charge has been increased to release the unrealised gain over the life of the loan.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

k) *Operating Leases*
Rental charges on operating leases are charged to profit or loss as incurred over the life of the lease.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. Basis of accounting (continued)

l) *Leasing and hire purchase contracts*

Fixed assets acquired under finance leases and hire purchase contracts are capitalised in the consolidated balance sheet and depreciated over their estimated useful economic lives. The interest element of the rental obligations is charged to the Consolidated Statement of Comprehensive Income over the period of the agreement on a straight line basis.

4. Turnover

	2018	2017
	£	£
Passenger revenue	41,860,342	41,593,426
Other revenue	3,680,546	3,086,078
Turnover	45,540,888	44,679,504

Other income includes revenue from: ground handling services performed for other airlines; sales of refreshments, snacks and duty free goods on board aircraft; carriage of cargo and mail; aircraft charter; and medevac flights among other sources. Turnover and operating profit/loss derive wholly from continuing activities.

5. Other costs

	2018	2017
	£	£
Audit fee	65,606	60,000
Catering	335	35,974
Other	3,713,780	2,808,307
Other costs	3,779,721	2,904,281

6. Taxation

The Group is taxed at a standard rate of 0% under Guernsey tax regulation.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

7. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Frequent Flyer Programme

Arriving at a provision for unused frequent flyer points involves assumptions around the average value of the points outstanding at the balance sheet date and the volume of points earned that will have now expired. The assumptions used in arriving at this estimated value are detailed in note 3(b).

EU261 compensation claims

The primary assumption needed in arriving at a value for the EU261 compensation provision is the percentage of potential claimants who will actually submit a claim, as the amount of potential claimants and the amount per claim are both known. The percentage of the total outstanding liability that has been included as a provision in these financial statements is based on experience of claims up to 31 December 2018.

Aircraft residual values

The ultimate residual value of commercial aircraft is impacted by numerous factors in addition to usual market demand. These include the life remaining in major components before overhaul, cumulative hull hours and cycles, the cost of fuel and exchange rates. In formulating its depreciation policy the Board uses third party valuation information, where available, and estimates based on similar fleets where there is no third party information. As mentioned in note 3 (e), during the year Aurigny entered into an agreement giving it the right to sell 2 ATR72-500 aircraft to a third party. The rates of depreciation applied to these aircraft have been updated to reflect the projected sales proceeds rather than the third party valuation used in prior years.

Onerous lease

Where Aurigny has entered into lease contracts for commercial aircraft that have become onerous, the present obligation under those contracts has been recognised and measured as a provision. In arriving at any provision, assumptions have been made concerning any income or benefits that can reasonably be expected to be derived from an aircraft during the remaining lease period. The discount rate applied to the provision is Aurigny's weighted average cost of debt.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. Tangible fixed assets

Cost	31 December 2017 £	Additions £	Written off/ Disposals £	31 December 2018 £
Aircraft	61,039,348	11,449,757	(1,275,420)	71,213,685
Tools, ground and radio equipment	1,828,701	166,310	-	1,995,011
Motor vehicles	343,162	130,888	-	474,050
Office furniture, equipment & computer equipment	810,532	148,498	-	959,030
Buildings	-	13,549	-	13,549
Leasehold Property	385,189	166,782	-	551,971
Total	64,406,932	12,075,784	(1,275,420)	75,207,296

Accumulated Depreciation	31 December 2017 £	Depreciation £	Written off/ Disposals £	31 December 2018 £
Aircraft	21,380,329	3,873,241	(1,230,281)	24,023,289
Tools, ground and radio equipment	1,354,206	106,817	-	1,461,023
Motor vehicles	200,183	46,725	-	246,908
Office furniture, equipment & computer equipment	571,084	95,642	-	666,726
Buildings	-	401	-	401
Leasehold Property	76,534	23,647	-	100,181
Total	23,582,336	4,146,473	(1,230,281)	26,498,528

Carrying Amount	31 December 2017 £	31 December 2018 £
Aircraft	39,659,019	47,190,396
Tools, ground and radio equipment	474,495	533,988
Motor vehicles	142,979	227,142
Office furniture, equipment & computer equipment	239,448	292,304
Buildings	-	13,148
Leasehold Property	308,655	451,790
	40,824,596	48,708,768

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. Tangible fixed assets (continued)

Included within aircraft additions is £**[redacted]** for the final contractual payment due in respect of a new Dornier 228NG aircraft which was delivered in the year and has entered service.

Also included within aircraft additions is £**[redacted]** which represents contractual payments due in the current year in respect of 3 new ATR 72-600 aircraft which have been ordered during the year from ATR G.I.E. which are not due to be delivered until August, October and November 2019 respectively. Depreciation will not be charged on these aircraft until they enter service.

Included within aircraft cost at 31st December 2017 and 2018 are two ATR72-500 aircraft. During the year Aurigny entered into an agreement giving it the right to sell these aircraft to a third party, one in November 2019 and one in January 2020, for a price to be calculated in accordance with an agreed formula.

Included within tangible fixed assets are assets acquired under finance leases as follows:

	Cost	Accumulated Depreciation	Carrying Amount
	£	£	£
Plant and equipment	124,180	102,497	21,683

9. Debtors

	2018	2017
	£	£
Trade debtors	1,392,589	1,376,484
Prepayments	1,034,485	998,263
Due within one year	2,427,074	2,374,747
Lease and trade deposits	572,695	674,698
Due after more than one year	572,695	674,698
Total debtors	2,999,769	3,049,445

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

10. Investment in subsidiary undertakings

The Subsidiaries of the Company, which are incorporated within these consolidated financial statements, are as follows:

	Place of incorporation	*Percentage of equity share capital held*	*Principal activity*
Aurigny Air Services Limited	Guernsey	100%	Air transport services
Anglo Normandy Aero Engineering Limited	Guernsey	100%	Aircraft engineering

11. Stock

	2018 £	2017 £
Stock	1,331,292	1,330,709
	1,331,292	**1,330,709**

12. Bank overdraft

Aurigny has an overdraft facility of £1m supported by a guarantee from the States of Guernsey. The overdraft bears interest at 1.125% above the Bank of England base rate. The bank overdraft of £379,421 (2017: £nil) represents an actual balance as at 31 December 2018 of £389,084 (2017: £nil) and uncleared receipts of £9,663 (2017: £nil).

The Anglo Normandy overdraft balance of £3,481 (2017: £66,469) is made up of an actual balance of £nil (2017: £nil) and uncleared payments of £3,481 (2017: £66,469). Anglo Normandy does not have an agreed borrowing facility.

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

13. Creditors: amounts falling due within one year

	2018	2017
	£	£
Trade creditors	2,375,913	3,018,227
Bookings paid in advance	5,157,565	4,256,153
Accruals	2,651,750	2,495,758
Amount due to shareholder	9,714,767	7,219,764
Creditors: amounts falling due within one year	19,899,995	16,989,902

Included within trade creditors is £965,851 (2017: £944,519) which was payable to the States of Guernsey in relation to trading activities between the parties.

Included in accruals is a provision in respect of estimated future liabilities under Aurigny's frequent flyer scheme, the movement on which is reconciled as follows:

	2018	2017
	£	£
Opening balance	415,784	494,602
Movement in outstanding points	125,453	111,497
Expired points	(164,536)	(190,315)
	376,701	415,784

Included in accruals is a provision in respect of retrospective liabilities under EU 261 regarding flight delay compensation, the movement on which is reconciled as follows:

	2018	2017
	£	£
Opening balance	255,000	200,000
Additions	78,765	170,849
Charges	(78,765)	(115,849)
	255,000	255,000

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. Creditors: amounts falling due within one year (continued)

Also included in accruals is an onerous lease provision. Aurigny has obligations under an aircraft lease agreement which the Directors consider to be onerous therefore they have made a provision of £845,806 (2017: £1,240,738). In measuring the provision, the Directors have used a discount rate of 5.08%. The movement on this provision can be reconciled as follows:

	2018	2017
	£	£
Opening balance	1,204,738	-
Charge to provision	-	1,204,738
Release of provision	(358,932)	-
	845,806	1,204,738

	2018		2017	
	£		£	
	Current	Non-current	Current	Non-current
Aircraft loans				
(i) ATR 72-500 loan	8,384,997	-	1,289,694	8,346,320
(ii) ATR 72-600 loan	-	7,663,191	-	-
	8,384,997	7,663,191	1,289,694	8,346,320
Amount due to parent company shareholder				
(iii) Working capital facility	7,839,346	-	5,066,847	-
(iv) Embraer jet loan	1,118,476	16,529,819	1,528,301	17,648,294
(v) Dornier 228 loan	188,293	1,848,276	247,891	2,036,569
(vi) Dornier 228 NG loan 1	270,820	4,590,941	376,725	4,861,761
(vii) Dornier 228 NG loan 2	297,832	6,610,722	-	4,035,085
(viii) Fair value adjustment upon initial recognition of refinanced loans	-	(2,404,016)	-	(2,864,805)
	9,714,767	27,175,742	7,219,764	25,716,904

Notes to the Financial Statements (continued)
For the year ended 31 December 2018

13. Creditors: amounts falling due within one year (continued)

(i) A loan facility of £19,799,383 was entered into in 2009 with a commercial bank for the purposes of financing the purchase of two ATR72-500 aircraft. Repayments have commenced and the outstanding balance at 31 December 2018 was £8,384,997 (2017: £9,636,014). The loan bears interest at 0.18% per annum above LIBOR and is guaranteed by the States of Guernsey. Aurigny has entered into an interest rate swap arrangement in respect to the aircraft loan in order to fix future cash flow requirements. The fixed interest rate for the period of the loan is 5.35% and the value of this swap is shown within "derivative financial instruments" under current liabilities, having been calculated in accordance with note 3(j) derivative financial instruments and hedging. The interest rate swap expired in February 2019. The loan was refinanced in February 2019 with a commercial bank and has a residual balance, due by 31st March 2020, of £8,000,000. Interest payable on the refinanced loan is **[redacted]**% per annum over LIBOR which has been capped at **[redacted]**%. As stated in Note 8, during the year Aurigny entered into an agreement giving it the right to sell these aircraft to a third party, one in November 2019 and one in January 2020, for a price to be calculated in accordance with an agreed formula. The proceeds of sale are estimated to be more than sufficient to repay the residual balance.

(ii) Aurigny entered into a loan facility of up to £51m with a commercial bank in 2018 to finance the purchase of three ATR72-600 aircraft due for delivery in August, October and November 2019. The loan will be repaid in part out of the proceeds of sale of two ATR72-500 aircraft which are expected to be sold in November 2019 and January 2020. Capital repayments on the remaining loan balance, expected to be approx. £**[redacted]**, commence in March 2020 and end in December 2028 when the outstanding balance is expected to be £**[redacted]**. The loan, which is guaranteed by the States of Guernsey, bears interest at **[redacted]**% per annum above LIBOR. Aurigny has entered into interest rate swap arrangements in respect of loan repayments to fix the future cash flow requirements. The fixed interest rate is **[redacted]**% until 31 December 2019 and **[redacted]**% for the remainder of the period of the loan. Both swaps include a buy back of the 0% floor included within the loan facility. The value of these swaps is shown within "derivative financial instruments" under current liabilities, having been calculated in accordance with note 3(j) derivative financial instruments and hedging.

(iii) A temporary overdraft facility is in place with the States of Guernsey to cover ongoing cash requirements of the Group. The facility for 2018 is for up to £11.8m and for 2019 up to £15m. The facility bears interest at a variable rate; the rate which applied throughout the year was 7.6% pa (2017: 6.6%). £7,839,346 (2017: £5,066,877) has been drawn as at the balance sheet date, and interest of £451,907 (2017: £66,846 accrued) has been charged in the year.

(iv) The agreement to fund the purchase of the Embraer jet was initially a facility of £4.4m and has been extended to £22,170,805. As at the balance sheet date, the entire loan had been drawn down but had reduced to £17,648,295 (2017: £19,176,595) through scheduled repayments. This loan bears interest at 4.047% pa, matures in June 2024 and has a residual balance of £10,900,000.

(v) Aurigny entered into an agreement with the States of Guernsey in 2014 for the purpose of purchasing two used Dornier 228 aircraft. This is a £2,678,555 facility. As at the balance sheet date, the entire loan had been drawn down but had reduced to £2,036,569 (2017: £2,284,460) through scheduled repayments. This loan bears interest at 4.066% pa, matures in March 2020 and has a residual balance of £1,800,000.

(vi) Aurigny entered into an agreement with the States of Guernsey in 2015 for the purpose of purchasing a new Dornier 228 NG aircraft. This is a £5,630,216 facility. As at the balance sheet date, the entire loan had been drawn down but had reduced to £4,861,761 (2017: £5,238,486) through scheduled repayments. The loan bears a fixed interest rate of 4.124% pa. This loan matures in November 2025 and has a residual balance of £2,740,000.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. Creditors: amounts falling due within one year (continued)

(vii) Aurigny entered into an agreement with the States of Guernsey in 2016 for the purpose of purchasing a second new Dornier 228 NG aircraft which was delivered in August 2018. This is a £6,981,347 facility (2017: £6,830,000). As at the balance sheet date the entire loan had been drawn down but had been reduced to £6,908,554 (2017: £3,828,032) though scheduled repayments. Interest and non-utilisation fees of £120,522 (2017: £207,053) have been paid in the year. The loan bears a fixed interest rate of 3.625% pa and has a ten-year term with capital repayments beginning when the aircraft entered service in September 2018.

(viii) When the loans with the States of Guernsey were refinanced to fixed interest rate loans on 1 April 2015, a fair value adjustment upon initial recognition of £3,695,999 was recognised. £129,793 of this amount was released in full in 2016 as it related to an aircraft that was sold in the period. This adjustment was calculated using an external market rate of 6.4% pa to determine the net present value of future cashflows. The effective interest rate method has increased the interest being charged through profit or loss to unwind this unrealised gain over the life of the loans. This increased the interest charged during the year by £427,209 (2017: £422,329).

The loan with the States of Guernsey taken out in 2016 described in section (vii) generated an unrealised gain on initial recognition of £476,383, which was calculated using an external market rate of 8.4% pa to determine the net present value of future cashflows. The effective interest rate method has increased the interest being charged during the year by £44,299 (2017: £43,048). £33,278 of this amount is included in tangible fixed assets as it forms part of the initial purchase cost of the aircraft, and the remaining £11,021 has been charged through profit or loss as it relates to the period after the aircraft came into service.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

14. Creditors: amounts falling due after more than one year

	2018	2017
	£	£
Aircraft loan	7,663,191	8,346,320
Amount due to shareholder	27,175,742	25,716,904
Creditors: amounts falling due after more than one year	**34,838,933**	**34,063,224**

Maturity of debt:

	2018	2017
	£	£
One to two years	6,409,668	13,218,778
Two to five years	17,613,164	4,707,701
More than five years	10,816,101	16,136,745
	34,838,933	**34,063,224**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

15. Derivative financial instruments

Balance Sheet

Current Assets	2018	2017
	£	£
Foreign currency exchange forward contracts	346,088	397,570
	346,088	397,570

Creditors: amounts falling due within one year	2018	2017
	£	£
Aircraft interest rate swap	(300,450)	(466,703)
Fuel forward contracts	(815,466)	(651,845)
Foreign currency exchange forward contracts	(237,906)	-
	(1,353,822)	(1,118,548)

Statement of Comprehensive Income

	2018	2017
	£	£
Realised (loss)/gain on derivative financial instruments	(143,869)	363,588
Movement in unrealised (loss)/gain on derivative financial instruments	(286,756)	1,176,725
Movement in (loss)/gain on derivative financial instruments	(430,625)	1,540,313

Details of the aircraft loan interest rate swap are disclosed in note 13.

The fuel forward contracts relate to the hedging of fuel costs and the outstanding contracts at the Balance Sheet date totalled 7,885 (2017: 8,220) tonnes. All of these contracts expire in 2019.

The foreign currency exchange forward contracts relate to the hedging of the purchase of USD 7.68m (2017: USD 9.3m and €3.18m). All of these contracts expire in 2019.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

16. Categories of financial instruments

	Financial assets at fair value through profit or loss	Debt instruments at amortised cost	Financial liabilities measured at fair value through profit or loss	Other financial liabilities measured at amortised cost	Total
	£	£	£	£	£
31 December 2018					
Debtors	-	1,965,284	-	-	1,965,284
Cash and cash equivalents (net of overdrafts)	-	507,930	-	-	507,930
Creditors	-	-	-	(47,075,737)	(47,075,737)
Aircraft loans	-	-	-	(16,048,188)	(16,048,188)
Derivative financial instruments (Current Assets)	346,088	-	-	-	346,088
Derivative financial instruments (Creditors: amounts falling due within one year)	-	-	(1,353,822)	-	(1,353,822)
	346,088	2,473,214	(1,353,822)	(63,123,925)	(61,658,445)

	Financial assets at fair value through profit or loss	Debt intruments at amortised cost	Financial liabilities measured at fair value through profit or loss	Other financial liabilities measured at amortised cost	Total
	£	£	£	£	£
31 December 2017					
Debtors	-	2,051,182	-	-	2,051,182
Cash and cash equivalents (net of overdrafts)	-	1,704,444	-	-	1,704,444
Creditors	-	-	-	(42,706,806)	(42,706,806)
Aircraft loans	-	-	-	(9,636,014)	(9,636,014)
Derivative financial instruments (Current Assets)	397,570	-	-	-	397,570
Derivative financial instruments (Creditors: amounts falling due within one year)	-	-	(1,118,548)	-	(1,118,548)
	397,570	3,755,626	(1,118,548)	(52,342,820)	(49,308,172)

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17. Called up share capital

Authorised and issued	Ordinary shares of £1 each
At 1 January 2018	25,212,002
At 31 December 2018	25,212,002

Authorised and issued	Ordinary shares of £1 each
At 1 January 2017	25,212,002
At 31 December 2017	25,212,002

The ordinary shares have the right to participate in the profits of the Company and on a return of capital are entitled to repayment, in full, of the nominal amount. Further, the ordinary shares carry rights to attend and vote at general meetings of the Company.

18. Pension costs

The Subsidiaries operate a joint defined contribution pension scheme for their Channel Islands resident employees. Aurigny has established a Group Personal Pension Plan arrangement for its United Kingdom resident employees. The assets of the scheme and the personal pension plans are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds and amounted to £293,588 (2017: £233,750). The amount payable at the end of the year was £47,972 (2017: £29,245). A defined contribution plan and a personal pension plan are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay any further amounts. Obligations for contributions to defined contribution pension plans and personal pension plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

19. Financial commitments

	Purchase of Aircraft £	Leases of Aircraft £	Land & buildings £
In less than one year	**[redacted]**	1,586,667	258,817
In one to five years	-	1,853,334	1,035,268
Over five years	-	-	2,070,536
	[redacted]	3,440,001	3,364,621

As detailed in Note 8, during the year Aurigny has ordered 3 new ATR72-600 aircraft from ATR G.I.E. with contracted delivery dates of August, October and November 2019. Purchase of Aircraft represents the balance of the purchase price remaining due at 31 December 2018.

Aurigny currently operates two leased aircraft, one of which has a 5 year lease term that expires in March 2020, and the other also has a 5 year lease term that expires in November 2021. Leases of Aircraft represents the total of future minimum lease payments under non-cancellable operating leases.

20. Contingent liabilities

Aurigny has provided a guarantee in favour of Guernsey Customs and Excise to the value of £500 (2017: £500) and the UK Customs and Excise to the value of £5,000 (2017: £5,000), guaranteeing duty-free stock held by Aurigny.

Anglo Normandy has provided a guarantee in favour of Guernsey Customs and Excise to the value of £40,000 (2017: £40,000), guaranteeing duty-free stock held by Anglo Normandy.

21. Ultimate controlling party

The controlling party, which has interests in 100% (2017: 100%) of the issued share capital of the Company, is the States of Guernsey.

22. Related party transactions

On 22 July 2011 Cabernet Limited signed a 21 year lease agreement, commencing on 1 January 2011 and ending on 31 December 2031, with the States of Guernsey for the hangar and land situated at La Planque Lane, Forest. Rents of £227,317 (2017: £227,317) were paid.

Key management personnel compensation of the Group totalled £837,713 (2017: £740,809).

During the year Energy Aviation Services Ltd, a company resident in the United Kingdom wholly owned by Chris Holliday, a Director of Aurigny, provided aviation consulting services to Aurigny amounting to £11,400 (2017: £Nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

23. Post Balance Sheet Events

As stated in Note 13, in February 2019 Aurigny refinanced the loan facility entered into in 2009 with a commercial bank.